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C O N F I D E N T I A L SECTION 01 OF 03 ALGIERS 000900

SIPDIS

STATE FOR NEA/MAG

STATE PASS FOR USTR - BURKHEAD

COMMERCE FOR NATE MASON

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TAGS: [EINV](#) [EFIN](#) [ETRD](#) [ECON](#) [PGOV](#) [PREL](#) [AG](#)

SUBJECT: ALGERIA: USTR DIRECTOR BURKHEAD TACKLES
TRADE-INVESTMENT CHANGES

REF: A) ALGIERS 890 B) ALGIERS 889 C) ALGIERS 888 D)
ALGIERS 887

Classified By: Ambassador David D. Pearce, reasons 1.4 (b), (d)

Summary

¶1. (C) USTR Director Paul Burkhead told Algerian ministers and senior officials during a September 27-28 visit that the U.S. wants to improve trade and investment ties with Algeria and help Algeria diversify its economy beyond the hydrocarbon sector. GOA officials said Algeria still wants to accede to the WTO and reinvigorate U.S. trade with and investment in Algeria. These officials welcomed his proposal to hold a bilateral stock-taking meeting on WTO accession and bilateral trade and investment, the latter in the context of our Trade and Investment Framework Agreement (TIFA). Businessmen, meanwhile, raised with Burkhead their concerns over recently enacted legislation that impedes trade and investment and emphasized that implementation without prior consultation injected unpredictability into the business climate. Burkhead raised these issues with GOA ministers, who responded that the measures were needed to halt a sudden deterioration in Algeria's balance of payments, exert more control over large-scale profit repatriations, and stimulate domestic industries. Diplomats from EU countries, Japan, Egypt and Canada also complained to Burkhead about the negative effects recent Algerian laws have had for trade and investment. In the case of the EU, these changes breach the terms of Algeria's association agreement. Burkhead's press roundtable was mostly repeated factually in the local press, although some newspapers complained that his remarks constituted unwarranted criticism of and interference in Algerian policies. Reftels report individual meetings. End summary.

Private Sector Airs Its Worries

¶2. (SBU) In a September 27-29 visit, USTR Director for European and Middle Eastern Trade Affairs Paul Burkhead met with numerous U.S. and Algerian business leaders, including representatives from General Electric, Microsoft, Citibank, and Hamida Pharma, as well as government officials. Private sector leaders raised concerns over measures enacted in the July 2009 Complementary Finance Law and rules enacted in 2008 that have impeded trade and foreign investment in Algeria. These included: 1) a 51-percent Algerian majority share requirement for all foreign investment; 2) a 30-percent

Algerian share requirement for all import companies; 3) limitations on the repatriation of profits; 4) requiring that a letter of credit be the sole allowable form of payment for imports; 5) a ban on the import of many pharmaceuticals; and 6) sudden changes in various import procedures. Burkhead also heard complaints of lax enforcement of Algeria's intellectual property protection legislation. Burkhead told business leaders the U.S. recognized that Algeria should diversify its economy beyond the energy sector, and that a key way to do this is to create conditions favorable to foreign investment and trade.

USTR Message to GOA: WTO Accession Best Path to Reform

¶3. (C) As reported in reftels, Burkhead met with Minister of Commerce El Hachemi Djaaboub, Minister of Finance Karim Djoudi, Minister of Industry and Industrial Promotion Abdelhamid Temmar, and Secretary General in the Ministry of Health Abdelsalam Chakou. He told all official interlocutors that the U.S. wants to improve trade and investment with Algeria. Consultations under our Trade and Investment Framework Agreement (TIFA) had ceased after 2004, however, and should be revived. Burkhead spotlighted WTO accession as the best instrument to help implement reforms needed for Algeria to diversify its economy away from oil and gas, take a more direct part in the global economy, and have a seat at the table that negotiates global trade policy. He emphasized that the U.S. stands ready to partner with this country to help it accede to the WTO.

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GOA: We Want WTO, But How?

¶4. (C) Senior GOA officials responded that Algeria wished to accede to the WTO and some expressed bafflement at why negotiations had stalled. Burkhead said the U.S. was ready to partner with Algeria in its accession bid, but Algeria would have to make hard choices in the rules governing trade and investment. All GOA officials reacted favorably to his proposal to hold a bilateral meeting to take stock of Algeria's WTO accession bid soon, a meeting that could also discuss re-engaging on trade and investment issues under the framework of TIFA.

GOA Defends Restrictive Trade and Investment Measures

¶5. (C) Burkhead raised with GOA officials the obstacles to trade and investment that had arisen over the past year, including those contained in the July 2009 Complementary Finance Law. These measures deterred U.S. and foreign investment, would impede Algeria's WTO accession, and created an unpredictable business climate that played havoc with businesses already in Algeria or thinking of investing there. GOA officials defended the measures as necessary to staunch a sudden spike in imports, especially services, over the last year. Coupled with a drop in oil export receipts, Algeria's balance of payments had deteriorated. Controls on profit repatriation were designed to stop tax evasion and exert greater control over large currency transfers outside the country. The letter of credit requirement was designed to clamp down on over-invoicing. A second goal of the measures was to stimulate domestic production, which had fallen on hard times following earlier periods of economic liberalization. Several GOA officials stated that Algeria remained committed to a policy of import substitution.

Intellectual Property

¶6. (C) Burkhead brought up U.S. companies' complaints of lack of intellectual property protection and said there was a need to educate the people to create a culture of respect for

intellectual property. The Minister of Industry noted that Algeria had an intellectual property protection law and could use training assistance from the U.S. in how to enforce it.

Pharmaceutical Ban

17. (C) Burkhead argued to Health Ministry Secretary General Chakou that the import ban on a list of pharmaceuticals was contrary to international trade rules and would create shortages and harm the Algerian consumer. Chakou said the ban covered only drugs already produced in Algeria and was designed to protect and stimulate domestic production of drugs. His ministry monitored the market and issued import permits when a shortage was imminent.

Europeans/Egyptians Worry About Trade-Investment Restrictions

18. (C) Meeting with senior diplomats from countries with major investments in Algeria, Burkhead heard that the EC, French, UK, Japan, and Egyptian representatives were most critical of these measures and the inconsistent implementation of other regulations. The EC representative underscored Algeria's breach of key provisions of its association agreement with the EU. Interestingly, a Canadian diplomat indicated that Ottawa was resigned to the legislative changes, given the GOA's ideological inclinations. Senior UK and EU officials will visit Algeria shortly to discuss these rules, including how they have violated provisions of the EU association agreement.

Next Steps

19. (C) Embassy recommends that USTR and Department follow up with formal offers of bilateral talks on WTO accession and

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bilateral trade and investment issues, under the framework of the TIFA Council. We will continue to consult with other concerned embassies here and report on their governments' discussions with the GOA.

110. (U) USTR Burkhead has cleared this message.
PEARCE